

## **All Round Growth of Economy Because of Increasing Advances of Growing Banks in India Despite Challenges of Non Performing Assets**

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### **ABSTRACT**

The development banks are specialized institutions which mainly perform developmental role in economics of the country. Initially, development banks were started after second world war to rehabilitate war shattered economies as a result, IBRD, international bank for reconstruction and development was started which is commonly known as world bank. Similarly International Monetary Fund (IMF) was also established to strengthen world economy. In India, first development bank was established immediately after independence. in the fiscal year 1948. It was Industrial Finance Corporation of India (IFCI). It was started to promote industrial growth for strengthening Indian economy.

**Keywords:** Growth of economy, IMF, IFCI, ICICI, NABARD, IDBI, HDFC.

### **INTRODUCTION**

Many development banks or development financial institutions were set up in Indian sub continent for all round growth of economy and now there are many development banks in our country. Few of them and major are Industrial Finance Corporation of India (IFCI), Industrial Credit Investment Corporation of India

(ICICI), National Bank for Agriculture and Rural Development (NABARD), Industrial Development Bank of India (IDBI), Housing Development Finance Corporation of India (HDFC), Axis Bank erstwhile UTI Bank which are now involved in lending to corporate houses, industries and institutions, National Housing Bank, Infrastructure Development Finance Company etc. Nowadays, many of these development

banks are providing universal banking solutions to Indian sub continent to net higher profitability in era of keen competition.

The present research paper is devoted to analyze advances given to different sectors of economy by major development banks like IFCI Limited, ICICI Bank, Axis Bank, HDFC Bank and IDBI Bank for all round growth of India. despite challenges of growth in the quantum of nonperforming assets in the banking economy and challenges of maintaining financial viability in the era of massive competition amongst them because of because of mammoth growth potential of Development Financial Institutions.

### RESEARCH METHODOLOGY

In the present research paper, secondary data has been collected from annual reports of different development banks and analyzed carefully from 2004-05 to 2011-12 and it has been analytically seen that how much advancing has been given by important development in India for all round growth for different sectors of economy and it is visualized in relation to the growth of important macroeconomic indicators in India. Further, the data of nonperforming assets of important development banks have also been analyzed to show that development banks have been providing advances for growth of different sectors of economy despite ever increasing challenges ahead. It has also been taken through secondary data that how much percentage of GDP comes from which sector of Indian economy and how Indian sub continent has

attained exponential economic growth in different five year plan periods.

### OBJECTIVES OF RESEARCH PAPER

The main objectives of the present research paper are to show that:-

01. Development banks are relying on giving huge advances for all round growth to different sectors in India.
02. Because of huge advances, industrial and service economy have attained massive growth in the past.
03. Rate of Investment and saving has increased in the past because of which growth rate has also improved because of huge advancing of development financial institutions to different sectors of the Indian economy.
04. Development banks are facing ticklish problem of management of Nonperforming assets.

### ADVANCES OF MAJOR DEVELOPMENT BANKS IN INDIA

Development financial institutions are specialized institutions meant for promoting all round growth of economy by inducing growth of economy in all the sectors. The following tables (Table No 1 to 5) show that advancing of selected Development financial institutions have grown in the past regime and this has been responsible for mammoth growth trajectory of economy.

**TABLE NUMBER 1**  
**ADVANCES OF ICICI BANK FOR DIFFERENT TIME PERIODS**

Year	Advances to Priority Sector in India	Advances to Public Sector in India	Advances to Banks	Advances to Others in India	Total Advances in India	Total Advances outside India	Total Advances
2004-05	20089.29	1115.43	451.71	63530.32	85186.75	6218.39	91405.15
2005-06	42675.61	1157.20	4.88	89801.47	133639.18	12523.92	146163.10
2006-07	55277.23	401.70	90.60	115686.04	171455.58	24410.01	195865.59
2007-08	59732.51	355.98	4.59	117777.32	177870.43	47745.65	225616.08
2008-09	62051.59	349.44	25.25	101593.09	164019.40	54291.44	228310.84
2009-10	53977.38	320.10	4.17	81767.25	136068.92	45136.67	181205.59
2010-11	53401.56	1378.86	181.06	106307.74	161269.23	55096.67	216365.90
2011-12	59285.64	1196.83	15.46	123826.82	184324.74	69402.91	253727.65

Source: Annual Reports of ICICI Bank for different years.

**TABLE NUMBER 2**  
**ADVANCES OF IDBI BANK FOR DIFFERENT TIME PERIODS**

**Rupees in Crores**

Year	Advances to Priority Sector in India	Advances to Public Sector in India	Advances to Banks	Advances to Others in India	Total Advances in India	Total Advances outside India	Total Advances
2004-05	4319.22	3496.03	276.23	37322.07	45413.56	Nil	45413.56
2005-06	6872.28	464083	83.27	41142.68	52739.06	Nil	52739.06
2006-07	9290.40	6682.80	808.26	45689.34	62470.82	Nil	62470.82
2007-08	15233.00	7802.45	31.72	59145.51	82212.68	Nil	82212.68
2008-09	22738.26	2247.55	1.27	78441.25	103428.33	Nil	103428.33
2009-10	31004.94	7315.47	57.55	99540.10	138201.85	283.77	138207.85
2010-11	42205.70	15949.42	368.97	96733.54	155257.65	1840.41	157098.06
2011-12	48450.20	20515.07	186.74	106603.46	175755.48	5402.94	181158.43

Source: Annual Reports of IDBI Bank for different years.

**TABLE NUMBER 3**  
**ADVANCES OF HDFC BANK FOR DIFFERENT TIME PERIODS :**

**Rupees in Crores**

Year	Advances to Priority Sector in India	Advances to Public Sector in India	Advances to Banks	Advances to Others in India	Total Advances in India	Total Advances outside India	Total Advances
2004-05	5616.62	437.16	10.87	19801.65	25566.30	Nil	25566.30
2005-06	10864.53	384.99	11.87	23799.87	35061.26	Nil	35061.26
2006-07	17683.07	205.15	38.32	29018.24	46944.78	Nil	46944.78
2007-08	17426.29	477.20	8.75	45514.65	63426.90	Nil	63426.90
2008-09	29781.59	3083.10	366.66	64818.29	98049.66	833.38	98883.04
2009-10	44157.56	5263.47	622.91	73808.21	123852.16	1978.42	125830.59
2010-11	54781.22	5400.10	28.60	95119.19	155329.12	4653.54	159982.66
2011-12	63863.00	7053.85	371.42	118210.18	189498.45	5921.57	195420.02

Source: Annual Reports of HDFC Bank for different years.

**TABLE NUMBER 4****ADVANCES OF AXIS BANK FOR DIFFERENT TIME PERIODS :****Rupees in Crores**

Year	Advances to Priority Sector in India	Advances to Public Sector in India	Advances to Banks	Advances to Others in India	Total Advances in India	Total Advances outside India	Total Advances
2004-05	4403.58	38.33	1.97	11159.02	15602.92	Nil	15602.92
2005-06	7729.93	63.60	25.16	14495.49	22314.19	0.0331	22314.23
2006-07	13196.33	21.54	27.68	21055.36	34300.92	2575.56	36876.48
2007-08	16572.25	6.21	27.63	37674.12	54280.22	5380.92	59661.14
2008-09	22949.04	158.16	18.50	48264.82	71390.53	10166.22	81556.76
2009-10	29940.41	3204.73	382.56	58484.59	92012.30	12330.80	104343.11
2010-11	41289.11	3003.94	240.80	78296.37	122830.23	19577.58	142407.82
2011-12	48479.23	3253.56	347.79	92376.77	144457.37	25302.16	169759.53

**Source: Annual Reports of Axis Bank for different years.****TABLE NUMBER 5****ADVANCES OF IFCI LIMITED FOR DIFFERENT TIME PERIODS****Rupees in Crores**

Year	Advances to Power Sector in India	Advances to Diversified Infrastructure Sector in India	Advances to Iron & Steel Industries	Advances to Infrastructural Development	Advances to Textile Units	Other Advances	Total Advances
2004-05	611.00	442.0	2317.00	1053.00	873.00	2804.00	8100.00
2005-06	704.00	450.00	1964.00	1154.00	556.00	1694.00	6522.00
2006-07	618.00	466.00	1913.00	1084.00	397.00	1574.00	6052.00
2007-08	635.34	491.04	1757.99	1126.38	309.93	1034.70	5355.38
2008-09	830.70	587.84	1766.53	1418.54	222.84	2193.49	7019.94
2009-10	942.49	1077.90	1927.34	2020.39	321.58	3882.06	10171.76

**Source: Annual Reports Of IFCI Limited for different years.**

**N.B.:-** segregated advances have not been shown on sector-wise basis after 2010-11 for IFCI Limited in the annual reports, they have not been shown in the above table for present era.

It can be concluded from the above tables that the advances to different segments of economy during 2011-12 have been Rs.169759.53crores for Axis Bank , Rs 195420.02crores for HDFC Bank while Rs. 253727.65crores for ICICI Bank. Because of such herculean advances, Indian economy has been in a position to become a

trillion dollar economy in the recent past. Better macro-economic indicators in the economy are witnessed because of huge advances. In following tables the major macro economy indices regarding all round growth of economy of India for different plan periods have been analyzed in details. The Table No.6 shown below analyzes growth rate achieved during different plan periods. These growth rates would not have been possible without increased advances and they have been solely responsible to strengthen economy of our country in the past regime.

**TABLE NUMBER 6**  
**ACHIEVED GROWTH RATE DURING**  
**DIFFERENT FIVE YEAR PLAN HORIZONS**

Five Year Plan	Period	Achieved Growth Rate
Eighth	1992 to 1996	6.5%
Ninth	1997 to 2001	5.5%
Tenth	2002 to 2006	7.8%
Eleventh	2007 to 2011	8.1%

Source: Central Statistical Organization, CSO.

Now, comparative analytical spectrum of contributions of different sectors in total Gross Domestic Product in ninth and tenth five year plan horizon so that an introspection can be done regarding growing economies of the Indian sub continent.

**TABLE NUMBER 7**  
**CONTRIBUTION IN PERCENTAGE OF**  
**GROSS DOMESTIC PRODUCT IN NINTH**  
**AND TENTH FIVE YEAR PLANS**

Sector	Ninth Five Year Plan	Tenth Five Year Plan
Agriculture	25.7%	22.2%
Mining & Excavation	2.4%	2.1%
Infrastructure	15.5%	16.1%
Electricity, Gas and Water Resources	2.8%	2.8%

Constructions	6.0%	6.1%
Trades	12.8%	13.3%
Railway Transport	0.9%	0.8%
Other Transport	4.80%	4.8%
Communication	1.40%	2.1%
Financial Services	6.2%	7.0%
General Administration	6.40%	6.4%
Other Services	15.06%	16.4%

Source: Draft outline of Ninth and Tenth Five Year Plans.

The above Table No 7 shows that so far as contribution in percentage of GDP is concerned, the main contribution comes from service sector, infrastructure, trade & commerce as well as communication etc. It has increased if ninth and tenth five years plans are compared and this increase is attributed to ever increasing advances of development financial institutions. Since the above sectors are growth economies of the nation development financial institutions can harvest more benefit and can harvest better returns if more advances are sanctioned in such growing areas of Indian economy.

Now let us see sector-wise growth in different plan horizons and inter compare them for better introspection.

**TABLE NUMBER 8**

Sector	Eighth Five Year Plan	Ninth Five Year Plan	Tenth Five Year Plan	Eleventh Five Year Plan
➤Period	1992 to 1996	1997 to 2001	2002 to 2006	2007 to 2011
Agriculture	4.72%	2.44%	2.30%	4.0%
Industry	7.29%	4.29%	9.17%	10.11%
Services	7.28%	7.87%	9.30%	9.11%
Total	6.54%	5.52%	7.74%	9.0%

Source: Draft outline of Five year plans for different plan periods.

**TABLE NUMBER 9**

% of GDP

Five Year Plan	Period	Investment Rate	Rate of Savings
Eighth Plan	1992 to 1996	24.4%	23.1%
Ninth Plan	1997 to 2001	24.3%	23.6%
Tenth Plan	2002 to 2006	32.1%	31.9%
Eleventh Plan	2007 to 2011	36.7%	34.8%

Source: Draft outline of different Five year plans.

**TABLE NUMBER 10****NET NON PERFORMING ASSETS TO NET ADVANCES OF DIFFERENT DEVELOPMENT BANKS FOR DIFFERENT TIME HORIZONS**

Percentages%

Year	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2004-05	21.14%	1.65%	1.74%	0.24%	1.39%
2005-06	5.78%	0.72%	1.01%	0.44%	0.98%
2006-07	Nil	1.03%	1.12%	0.43%	0.72%
2007-08	5.26%	1.57%	1.30%	0.47%	0.42%
2008-09	Nil	2.11%	0.92%	0.63%	0.40%
2009-10	0.44%	2.15%	1.02%	0.31%	0.40%
2010-11	0.97%	1.11%	1.06%	0.19%	0.29%
2011-12	0.43%	0.73%	1.61%	0.18%	0.27%

Source: Compiled from Annual Reports Of selected Development Banks for Different Years.

**TABLE NUMBER 11****NET NON PERFORMING ASSETS OF DIFFERENT DEVELOPMENT BANKS FOR DIFFERENT TIME HORIZONS**

Rupees in Crores

Year	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2004-05	2688.01	1983.00	847.49	60.63	216.85
2005-06	667.01	1075.00	563.12	155.18	219.83
2006-07	Nil	2019.00	721.93	202.89	266.33
2007-08	463.28	3564.00	1082.91	298.52	248.29
2008-09	Nil	4619.00	948.96	627.62	327.13
2009-10	55.62	3901.00	1406.32	394.63	419.00
2010-11	150.32	2407.36	1677.91	296.41	410.35
2011-12	112.71	1860.84	2910.93	354.19	472.64

Source: Compiled from Annual Reports Of selected Development Banks for Different Years.

It is evident from the table number 8 in different plan horizons. Thus it can be that there has been massive growth potential evident that advances given by development in the industrial sectors and service sectors financial institutions have been mainly

responsible to accelerate growth indices in growing sectors of economy.

Now let us see and compare rate of investment and rate of savings in different five year plan periods.

The above table (Table No. 9) shows that rate of investment and rate of savings in different five year plan period horizons have increased than the earlier periods. This has been possible because of ever increasing deposits as well as savings with Development financial institutions because of which different sectors of economy have attained fairly economic growth in the past regime. People have developed investment habit in the past regime and have also been doing more savings than the eminent past era. This has been possible because development financial institutions have been providing universal banking solution to the clients which is responsible for giving thrust to the investment and saving habit in the country. But these development banks have been facing immense challenges of nonperforming assets as well in the present and past regimes and the following tables no 10 and 11 shows nonperforming assets to net of advances as well as net NPAs with major and important development banks in India.

It is evident from the above tables that major development banks in India are facing tremendous challenges of nonperforming assets in their financial systems which should be a matter of concern for them. Amongst the selected Development Banks, HDFC Bank has managed NPAs with great prudence followed by Axis Bank and IFCI Limited. So far as NPAs of ICICI Bank is concerned, they are higher than other counterparts. However, following measures

may be taken to control ever increasing nonperforming assets so as to boost position of profitability, liquidity and solvency in the banking business. These suggestions are delineated as under:

### **CONTROLLING NON PERFORMING ASSETS IN THE BANKING SECTOR ECONOMY OF INDIA - SUGGESTIVE MEASURES**

01. By strengthening and evaluating workshops for credit risk management committees in the banking operations.
02. By setting goals for credit monitoring units and enforcing management control keep their performances under vigil.
03. Continuous serious and persistent credit monitoring and credit recovery efforts.
04. Credit should be given after serious evaluation of character, collateral capacity and conditions of the banking customers..
05. Development of more authentic IT segment for directly probing on the issues of credit management and credit risk management systems.
06. Settlement Advisory committee can be given the task of enforcing settlements in case of small scale business credit operations which are susceptible to more credit risk.
07. Enforcement of sound legal recovery systems as it is highly responsible for immediate recovery of debts.
08. By channelizing bad debts to other factors who are more capable of immediate recovery of debts.
09. Lok Adalats have proved to be more effective in speedy recovery of bad debts but they have to be strengthened and entrusted with powers which are

basic lacunae with the prevailing banking operations. Taking recourse on mortgage based lending and collateralized lending process can reduce NPAs to a great extent.

10. By Securitization of debt as enunciated in **SARFAESI ACT** the NPAs can be further reduced.
11. Observing management principle of ethics and honesty while creating debt portfolio.
12. The overall ability and expertise of the loan officers can be enhanced with better training facilities and better training techniques.
13. Report regarding the clients can be made available from other bankers, credit information bureau, credit rating agencies e.g. ICRA, CRISIL etc. besides, bazaar reports, municipal records prior to sanction of loan in big quantum.
14. Negotiating one time settlement with the clients.

The above methodologies will surely be important in reducing nonperforming assets of the major developments financial institutions in India and if the banking business enforces such steps with judicious credit risk monitoring, the banks will be surely in a position to improve their financial stability and in turn banks can further contribute towards all round development of economy of Indian subcontinent in a prudent way.

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